The
VALUE
TIMES

INSTITUTE OF VALUE MANAGEMENT AUSTRALIA
Ensuring better value for money

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President's Message

Going Beyond Processes

Happy New Year, Everyone!

We already have our New Year resolution – it's the same each year – to actively pursue our primary purpose of helping people to achieve best 'value for money'.

We're on very solid ground with this endeavour.

Most procurement or contract documents mention "value for money" in one form or another and, at a personal level, it would be hard to find anyone who did not see value for money as a desirable accomplishment.

At one level of thought, the notion of "best value for money" is easy to grasp. If, for example, I have decided that the best computer for me is the new MacBook Air, 13-inch, 256 Gb then all I have to do is shop around and find the lowest cost one on offer.

If all the ones that I look at are *exactly* the same, then clearly, the lowest cost option delivers best 'value for money'. Simple! But usually things are not that simple because there are frequently variations to the standard one on offer and, ipso facto, they are no longer exactly the same.

Adding to the complexity is the fact that I might not really know my exact requirements or, even if I do know them, there might still be some kind of priority amongst them, such as "absolutely essential", or "nice to have".

In such cases, the lowest cost option might not represent best value for money at all. Then add to the mix my personal values, opinions and assumptions. Now which is best 'value for money'? How can we know?

If we shift focus away from a personal level to a corporate one, then things become far more complex. This is because more than one person, and, most likely, many people, will be involved in the decision.

Additionally, there are organisational protocols, rules and values of the organisation that all affect decision-making. This applies whether we are dealing with a private sector or public sector organisation.

Again, I ask the question: How, in these circumstances, can we know if we're getting best 'value for money'?

In answering this question, we bring *two* mechanisms to the table: *a process and a way of thinking*. Both are important. As far as process goes, this is spelled out in the Australian Standard on Value Management, AS 4183-2007. IVMA strongly promotes and recommends use of the Standard to achieve and assess best 'value for money'.

Process alone, however, will not suffice. This is important. The way we *think* about 'value for money' makes a huge difference.

For Value Management facilitators, this presents a two-fold challenge in that facilitators need to be thinking appropriately about 'value for money' themselves, *whilst at the same time* helping groups of people also to think about 'value for money'.

> *"This is definitely not the domain of robots"*

We can program robots to follow processes, but *thinking* about those processes, as well as thinking about the surrounding context, taking account of the values, requirements, assumptions, aspirations and concerns of the stakeholders is another matter entirely.

This is definitely not the domain of robots.

We want to help stakeholders take decisions that result in best 'value for money' and, as I have explained in previous articles, this requires building shared knowledge and understanding amongst those stakeholders. Such knowledge and understanding will not accrue through process alone (especially the process of broadly distributing emails)!

First, of course, we need to be thinking about the concept of 'value for money' itself and to keep in mind that 'value' and 'value for money' are not the same thing. In our Australian Standard approach we

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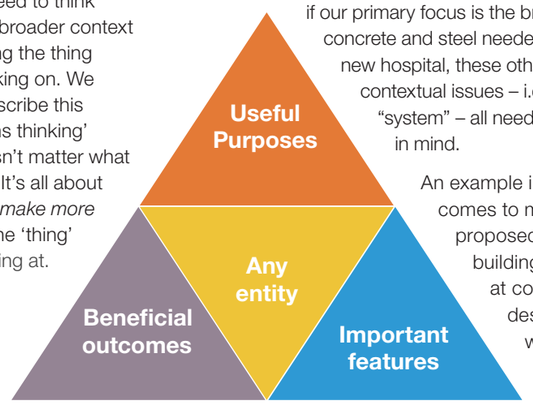
separate 'value' from 'money', giving us a basis to compare options: each option will provide more or less 'value' for more or less 'money'.

We capture 'value' from a multiple-stakeholder perspective using the Value Triangle, from which we produce a Value Statement. There are process steps involved in doing this, underpinned by thinking about the situation as described above.

Value Triangle

As we work collectively through the process-steps of producing the Value Statement, we are building shared knowledge and understanding of needs, aspirations, values and assumptions and establishing the basis to identify and compare potential options in terms of relative performance and cost. Each of these process-steps must be taken in the context of thought and reflection, requiring intentional effort.

We also need to think about the broader context surrounding the thing we're working on. We usually describe this as 'systems thinking' but it doesn't matter what you call it. It's all about helping to *make more sense* of the 'thing' we're looking at.



> *"It is the combination of processes and our thoughts (individual and collective) that leads to best 'value for money'"*

The 'thing' (or 'entity' to use the term from AS 4183) may be literally anything: a road, a hospital, a manufactured item, an organisation, a meeting, or even an idea – literally anything.

When we place a thing in its context, we look for connections and interrelationships with other things. If, for example, the 'thing' is a proposed new hospital then one of its connections is the health-service-delivery plan.

There will be lots of other connections, too, such as community facilities, access roads and available health services. Even if our primary focus is the bricks, mortar, concrete and steel needed to build the new hospital, these other broader contextual issues – i.e. the broader "system" – all need to be kept in mind.

An example immediately comes to mind of a proposed new hospital building, already at conceptual design stage, that was abandoned after the Value Management study found in favour of changes to the proposed method of service-delivery, together with upgrades to the existing facility.

This decision came about by examining the proposed hospital conceptual design *in the context of the whole area-health plan*. This exercise revealed a much better solution for delivering health services.

This might sound surprising, given that the focus of the Value Management study was on the actual conceptual design of the proposed new buildings. We would never have achieved that result had we not explored the broader context surrounding the proposed new buildings.

It is the *combination* of processes and our thoughts (individual and collective) that leads to best 'value for money'.

Organisations in the public and private sectors typically commit substantial resources to establish, maintain and monitor processes in the belief that the best processes will deliver the best results.

There are substantial benefits to be gained from good processes, but the fact of the matter is that processes alone will not deliver the best results.

Who's to Blame for our Road Woes?

Is immigration a major factor in congestion in Australia's major cities? This article suggests that this is not the case and that infrastructure investment policy may be to blame.

> *"This sinks Australia further into debt for no discernible gain"*

Canberra has abandoned roads to inflationary spending and policy chaos

Botched State road projects, toll road fee hikes and congestion grab big headlines and make good sport for critics of State governments.

Canberra escapes criticism by arguing it allocates funds to States, who execute poorly.

Yet Canberra deserves particular opprobrium in all things 'roads'. It is crying out for reform. Most of all it needs to discover an informed sense of purpose in roads beyond doling-out cash.

Important High Court decisions in 2014 may make a lot of Canberra's road and rail interventions unconstitutional, but that is yet to be tested.

Wherever the Constitutional risks may lie, the Commonwealth transport agency likes to be involved in everything: handing out co-funding for road projects it approves of, wedging States politically on other projects and chairing Potemkin road reform processes – without bearing any scrutiny for its own performance.

While Canberra plays the gadfly in this way, foundation Road Policy matters remain freewheeling, with no leadership whatsoever. This is irresponsible, because these matters risk being claimed by politicians, lobby groups and 'think tanks', without a proper synthesis.

This capture only reinforces dud project choices, impedes fair access to opportunity for transport users, spirals our public sector debt further, confuses our urban planning choices and locks out progress on the most prospective reforms, like urban congestion charges.

There are reform pathways at-hand for Canberra that will benefit motorists, government and investors alike without a referendum on Commonwealth powers in roads.

But this first requires Canberra to settle on a role in transport that helps, not hinders.

It needs more than cheap reform promises: the usual 'change management' departmental cuts and reorganisations. This has been tried before; it 'changes' nothing at all.

Canberra road policy omissions – nothing to see here!

Before major urban population growth, wage growth stagnation and tolled motorways became the critical issues we see them for today, Canberra's transport agency could probably afford to fudge on key road challenges and simply dole-out grants for big projects.

The agency was an outer planet in the scheme of things. Not anymore.

Here are five key 'roads' issues which Canberra continues to either botch, ignore completely or – in the case of the first one (below) – wilfully misrepresent to the community:

#1: Road spending – debt and waste

As Dr Michael Keating AC and I first reported back in early 2015, for every year since 2007, stratospheric increases in road spending have eclipsed the amount of bowser tax and registration fees collected by our governments.

This sinks Australia further into debt for no discernible gain.

Between 2010 and 2015, the amount spent on roads above the amount collected from motorists totalled nearly $33 billion.

The next time you hear a road lobbyist tell you that we all pay far more in taxes than we ever see on road spending, tell them to read the statistical reports. Any report from 2007 onwards will do.

The United States has the same debt subsidy problem in its Federal road program. The difference is the Congressional Budget Office is transparent about its problem. Canberra's transport agency simply lies by denying there is debt funding at all.

Then there is the politicisation and waste. Since 2000, road spending has increased by 61 per cent, yet road use grew by less than half this – just 26 per cent.

#2: False road reform: just a grab for more of your cash

Canberra has been promising to deliver road-pricing reform for over a decade.

The agency's motivation is to generate more revenue to spend just as it does

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Facilitator's Casebook

Over more than 25 years David Baguley has facilitated hundreds of Value Management workshops. In this regular column, David will highlight the versatility of the Value Management process and tools by sharing Case Studies that demonstrate how 'value for money' can be delivered in different ways.

Case Study: Value Management, Edward de Bono and Pakistani Farmers

Situation:

Farmers in Pakistan with small-to-medium holdings have had little access to technologies for irrigation, as affordable and accessible tools are neither produced nor widely distributed in Pakistan.

The main extension challenge is how to 'scale out' existing and new technologies over the vast irrigated areas of Pakistan.

The development of skills and capacity among farmers to manage and maintain irrigation is critical to Pakistan's continued economic growth and food security.

Extension approaches to farming in Pakistan occur in two ways:

- the traditional top-down, expert-to-farmer approach; and
- the interactive Farmer Field School (FFS) approach. FFS programs are used to "transfer specialist knowledge, promote skills and empower farmers".

There was a research project being conducted by the University of Canberra, CSIRO and the Pakistan Council of Research in Water Resources (PCRWR), the Society for Facilitators and Trainers (SOFT) and the National Agricultural Research Centre Social Science Research Institute (NARC-SSSRI) in Pakistan. Part of the project involved exploring the use of Value Management techniques to improve collaboration in the field with farmers.

A multi-discipline team of engineers, scientists, researchers and facilitators from Pakistan visited Australia in February-March 2017 on a study tour that involved participation in Value Management training and a Value Management workshop. The focus for the Value Management workshop was to:

1. Challenge existing practices and to identify better ways to encourage farmers to adopt better water and irrigation practices.
2. Develop new learning models that can be 'scaled out' ultimately as farmer to farmer method

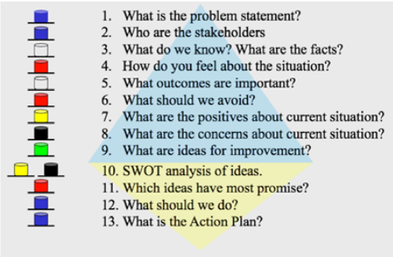
Process:

The Value Management process allowed the engineers, scientists, researchers and facilitators to rigorously review the current situation and develop a range of initiatives that could be investigated and implemented.

As an extension to the Value Management workshop, a workshop was run with the SOFT facilitators from Pakistan to use the Value Management methodology to develop a simple model that might be used to collaborate with farmers.

Working with the divergent/convergent structure of Value Management workshops and the 'parallel thinking' philosophy that occurs in the different phases of Value Management, the group was introduced to Edward de Bono's '6 Thinking Hats'.

The recommended model uses a series of 'parallel thinking' questions to lead participants through a divergent thinking phase followed by a convergent analysis phase. Each question has been aligned to one of de Bono's '6 Thinking Hats'.



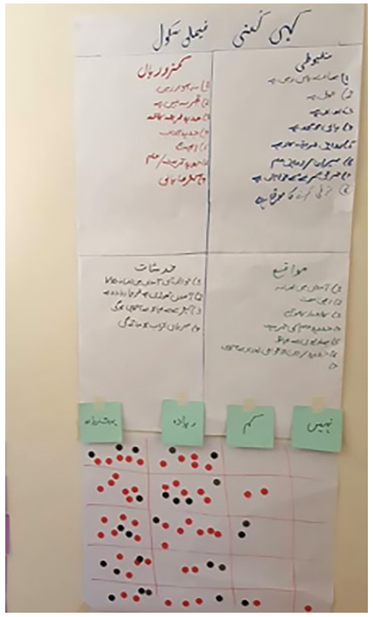
The facilitation model uses a sequence of de Bono '6 Thinking Hats' to encourage 'parallel thinking', in order to get input from participants quickly and reduce argument. Provided the divergent/convergent structure is maintained, the sequence of 'hats' can be changed to suit the situation.

The facilitators would use a mix of individual, small group and plenary sessions to:

- generate understanding of issues
- identify desirable outcomes (purpose, benefits and characteristics of ideal future)
- explore all ideas
- action best value option/s

A simple template was developed incorporating a SWOT analysis, Decision Matrix and Action Plan to provide a structure for the evaluation of all ideas.

Idea:				
Strengths	Weaknesses			
Opportunities	Threats			
Outcome Criteria:	How well Criteria met?			
	High	Medium	Low	NA
1. 2. 3. 4.				
Action			Action By	



Two teams used the method to analyse a typical farmer problem and, over a 3-hour workshop, were able to carry out a fairly rigorous analysis then develop and document several worthwhile recommendations with Action Plans.

Outcome:

The methodology has since been field-tested by facilitators with groups of farmers in the field. Having participated in the selection of focus problems, analysis and identification of ideas, the resulting Action Plans have higher farmer ownership and a greater chance of successful implementation. Images of farmers embracing the methodology and generating Action Plans based on structured analysis are most encouraging.

Based on experiences with the use of the model, the SOFT facilitators will, over time, modify the methodology to suit the situation.

Lessons Learnt:

1. The divergent/convergent Value Management job plan provides a powerful structure for collaboration and problem-solving.
2. The Value Management workshop program includes a series of 'parallel thinking' exercises to aid communication and develop understanding. Facilitators have used 'parallel thinking' tools such as SWOT, de Bono's '6 Thinking Hats' and others to reduce conflict and allow issues to be fully explored.

The use of a set of questions aligned with '6 Thinking Hats' has provided a simple model that can be used with, and taught to, farmers to transfer specialist knowledge, promote skills and empower farmers.

David Baguley
Chair, Appointments and Accreditation Committee, IVMA

Who's to Blame for our Road Woes?

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today – without accountability, with no user choice on how or where spending occurs and certainly no thought of binding service guarantees to motorists.

John Austen has explained clearly in earlier Pearls posts why this reform can't and won't ever happen while the debt problem remains unaddressed:

'It doesn't matter what any Minister says, what eminence gets on board, how loudly lobbyists bleat, how earnest are the pleas for 'reform', what amazing technology has made road pricing possible or how often the insiders initiate 'processes'. The roads deficit kills any chance of their vision of road bliss'.

If users were charged the real cost of roads, the increase required to cover off the rampant debt levels facing the asset would balloon out by perhaps 30 per cent.

Try telling politicians to take a 30% average pricing increase on road use to an election.

#3: Proper direct road pricing – and handing tax rebates to motorists

The only reform that has any chance is tried and true competition reform.

Yet for over a decade now, Canberra transport bureaucrats have led a chorus of poor advice to governments that competition reform simply doesn't apply to roads.

This doesn't square with the legislation. The *Competition and Consumer Act* 2010 provides for the declaration of 'services' and refers to roads explicitly as one such potential 'service' (at a technical level, modern technology ensures roads are 'excludable at point of use' for pricing and regulatory purposes).

Direct pricing won't work on all roads: it probably only works on big city motorways and major interstate highway. But these places are where the biggest pork-barrel operates. Beyond this, most roads are likely to be community service obligations in any event, of no relevance to direct road pricing.

The aim for big city motorways and interstate highways should be reform that promotes more rational, demand-led spending patterns (through price signals for use) and therefore less road spending overall.

Handing back road taxes

Following competition principles would see governments returning proportionate fuel tax and registration fee to motorists as rebates to those using directly priced motorways and highways – so that these motorists aren't being charged twice for driving on directly-priced motorways and interstate highways.

This is likely to make some of these roads cheaper to use than today.

This is a prospective reform for tolled motorways, which are encountering their own challenges (see below).

It is also the only practical solution for resolving road and rail competition in this country.

A declaration at this point: the writer led a lengthy proof of concept trial of this approach for the South Australian government in 2015 which proved up this hypothesis on a major highway – the road became materially cheaper for motorists.

This was reviewed by ACCC chairman Rod Sims and his team, the author of Australia's Competition Review Dr Ian Harper and former head of the Prime Minister's and Finance agencies Dr Michael Keating AC.

All reported positively on the methodology, the outcomes and the potential. It remains the only such trial conducted globally.

The simple reason Canberra's transport agency takes no interest in such reform is because by handing money back to motorists, the agency would reduce its own budget and Ministerial pork-barrel influence in direct proportion to the scale of the road tax rebate.

Prime Ministers such as Hawke or Keating stared down such agencies (rail, for example, which displayed exactly the same waste and internal hostility to real reform) and fixed them. Not so today.

#4: Congestion and population growth: are big city road shortcomings acting as barriers to opportunity?

There are many questions posed about big city congestion. The one least examined is also the most important: do our transport strategies lock people out from fair access to opportunity?

> *"It is also the only practical solution for resolving road and rail competition in this country"*

Last year's Grattan Institute report on travel times in Sydney and Melbourne using Google Maps travel time data made some interesting points: average travel times had not become significantly worse for many routes in both cities. This led the authors to state that 'the population boom has had little impact on commuting'.

Others in the media have picked up this analysis and drawn upon it to suggest things may not be so bad. If the test is providing equal access to opportunity, things look a lot worse.

As Grattan itself notes, *reliability* of commuting time matters very much for motorists and travel times of most if not all the rotes analysed are *less reliable* than they were a decade or more ago. This forces commuters to budget more total transit time *every* day to arrive roughly on time *every* day.

The extra time is a real and growing burden on these commuters. We should overlay increasing travel time budgets with diminished outer suburban access to public transport – our biggest city footprints have far outstripped the big radial train networks that would otherwise be an alternative to the car for many.

A final overlay, important but also little examined, is the impost of tolls – potentially several tolls on a given commute from outer suburb to city.

The strategic question is whether residents of the furthest outer suburbs of Melbourne and Sydney can still manage car travel times into or around the greater CBD once this ever expanding 'traffic jam travel time allowance' is budgeted onto daily average city commuting times and toll costs.

This is not to suggest all work in the city – they certainly don't – but the level of connectivity between far outer suburbs and greater central business district is a helpful yardstick for access to opportunity: Grattan pointed out some years ago that Melbourne's greater CBD generates $54 billion *per annum* in value, compared to $2 billion at Melbourne Airport and $3.6 billion at Clayton – two often-cited economic powerhouses of a newer, less city-centric Melbourne.

If outer suburban dwellers can't access public transport and can't make practical commute times work by car or bus, they have little option but to take more local outer suburban jobs or courses of almost certainly lesser pay and promise on average, simply because these are the only jobs accessible to these people.

For all the talk about the great 'agglomeration benefits' of big cities, these places may be failing a significant portion of their community at the most fundamental level in terms of fair access to opportunity.

A recent Fairfax preview of forthcoming research on these issues by eminent Australian professors Peter Brain and John Stanley and urban resilience and planning expert Dr Janet Stanley provides a glimpse of how this might be occurring in Melbourne.

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Who's to Blame for our Road Woes?

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In 1992, six of the large local government areas on Melbourne's fringe recorded wages above the State average. Today, the forthcoming Brain/Stanley research shows those same places have wage packets 21 per cent below that average.

Mapping tertiary educational achievement reveals a similar story.

Better policy appreciation here from Canberra would help keep States more accountable for better planning and project choices.

#5 Toll roads and big city congestion charges

The impact toll road fees have on access to opportunity remains little-examined, but this hasn't slowed down the desire to build more of them. Melbourne and especially Sydney both have large tolled private motorway networks by world standards.

One eminent academic in this field has referred to Sydney as the 'world's greatest toll lab' and has written persuasively on the potentially adverse compounding impact of 'toll fatigue', as drivers encounter even more tolls in Sydney in future.

Infrastructure Victoria produced some excellent analysis in 2016 to suggest that a congestion charging regime applied to Melbourne may reduce congestion to school holiday levels.

The gold standard for such a charge is the city of Stockholm: it installed a relatively low-cost system which has kept peak hour traffic levels suppressed – about 22 per cent lower than pre-charge – over many years now.

The real policy challenge – one which Canberra takes no interest in – goes to the pathway for introducing such a charge in a private motorway city like Sydney or Melbourne.

The ubiquity of private toll roads in these cities makes a congestion charge very challenging: toll road operators and their State government partners will have committed to motorway investments based on an assumed and contracted level of traffic and growth.

Any government decision that threatens the assumed level of traffic flow will harm the finance assumptions and this may attract penalty payments.

A charge is very likely to reduce congestion costs, improve city economic performance and increase access to opportunity, but it might also require government to write some hefty cheques for the material adverse effects this has on motorway investor revenues.

Paying fair compensation to these investors may ultimately prove the cheapest and best solution in the scheme of things, but Canberra shows no interest in congestion policy – its interest is in doling out cash, not securing pricing reform or placing downward pressure on road spending.

In the absence of a Commonwealth policy function which examines and synthesises these key road issues, lobby groups, technocrats and think tanks will occupy the vacuum – taking disparate interests in each of these matters and probably drawing conclusions that lead to dead-ends, or more waste.

Doing something better

The usual process in Canberra is to call for a departmental review: 'the reform you have when you aren't having a reform'.

This ensures agency executives gain new titles on their business cards – but little else.

It would be better to focus on real road issues, do something practical about them in the form of pilots and published analysis – and only then determine what a future Canberra transport agency might need to look like.

> *"Paying fair compensation to these investors may ultimately prove the cheapest and best solution"*

The reform pathways are waiting. They require some resolve to walk them.

To date, resolve has been in much shorter supply than easy billions for the next road project.

Luke Fraser *is the founder and principal of a transport policy and investment advisory. In 2012 he was appointed to the board of the Prime Minister and Premiers Road Reform Project. From the late 1990s he spent over a decade in Canberra in several APS executive, Commonwealth government chief of staff and industry CEO roles across the transport and defence sectors.*

This article was first published on John Menadue – Pearls and Irritations.